

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, January 18, 2002
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jim Bruner, ASRS Board Chairman, called the meeting to order at 8:30 a.m., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Mr. Jim Bruner, Chairman
Mr. Norman Miller, Vice Chairman (via telephone)
Dr. Merlin DuVal
Dr. Chuck Essigs (via telephone - arrived at 8:31 a.m.)
Ms. Bonnie Gonzalez (via telephone)
Mr. Alan Maguire (via telephone)
Mr. Karl Polen
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the November 16, 2001, Regular Meeting, the November 30, 2001, the November 30, 2001, Executive Session, the December 13, 2001, Special Meeting, and the December 21, 2001, Special Meeting of the ASRS Board.

Dr. Chuck Essigs arrived at 8:31 a.m.

Motion: Mr. Ray Rottas moved to approve the minutes of the November 16 and November 30 (as appended), 2001, regular meetings, the November 30 Executive Session, and the December 13 and December 21, 2001, special meetings of the ASRS Board.

Dr. Merlin DuVal seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

3. Board Approval of Consent Schedule.

Motion: Mr. Karl Polen moved that the ASRS Board approve the summary report of Retirements, Refunds and Death Benefits, Transfer Requests, and application and agreements with the following employers:

- A. Heber-Overgaard Fire District
- B. Intelli-School Charter School
- C. Goldfield Preparatory Academy dba Aztec Academy
- D. Verde Valley Fire District

Dr. Merlin DuVal seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Fiscal Year 2000/2001 Audit Findings and Annual Report.

Mr. Bernard Glick, Chief Internal Auditor, reported that the external auditor's findings and letter to management regarding the ASRS Annual Report for FY2000/01 revealed minor points about which the ASRS will provide a follow-up report to the Board in six months. In his opinion, the findings reflect the best report issued by the ASRS in several years.

Motion: Dr. Merlin DuVal moved to accept the Comprehensive Annual Financial Report and the audit findings for the fiscal year ended June 30, 2001.

Mr. Ray Rottas seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding State and Federal Legislative and Other Public Policy Issues.

Mr. Norman Miller, Chairman, External Relations and Legislative Board Committee, reported that the committee has met several times regarding legislation that may affect the ASRS. There were several new bills introduced this past week, which indicates it may be an active session.

Mr. Tom Finnerty, Legislative Liaison, provided an overview of the significant bills that have been introduced.

- **HB 2226 (ASRS; separate account; teachers)**, by Representatives Brimhall and Graf, would divide employers into two tiers. Tier 1 employers would be state universities, school districts, charter schools, community college districts, and the AZ School for the Deaf and Blind. Tier II employers would be the state and all political subdivisions that are not included in the Tier I definition.
- **HB 2219 (ASRS; retirement window; teachers)**, also by Reps. Brimhall and Graf, would

provide an early retirement window for Tier I employees who have a retirement date between June 30, 2002, and September 1, 2002. It would also provide six years of age to these retirees to give them normal retirement age or early retirement at 77 points and add three years of credited service for the purpose of calculating their retirement benefit.

Mr. Ray Rottas inquired about the purpose of the bill. Mr. Finnerty said he believes the intent of the legislature with both of these bills is to provide an early retirement window for state employees in order to downsize state government.

- **HB 2211 and HB 2379 (ASRS; retirees; graded multiplier increase)** are identical and provide a member or a beneficiary receiving benefits on August 8, 2001, a one-time permanent benefit increase (from 2.38 percent to 9.52 percent) based on years of service matching the graded multiplier passed in the 2001 session.
- **HB 2215 (ASRS; actuarial computation method)** changes the valuation of the ASRS assets from the Projected Unit Credit (PUC) to the Entry Age Normal (EAN) method beginning June 30, 2003. The Governor vetoed a similar bill at the end of the 2001 session.
- **HB 2225 (ASRS; conforming changes; federal law)** conforms state statutes to recent changes in federal law passed in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTERRA). It includes:
 - An increase in the annual benefit limit for defined benefit plans to \$160,000.
 - An increase in the annual contribution limits under 415(c) to the lesser of 100% of compensation or \$40,000, indexed in \$1,000 increments.
 - An increase in the amount of compensation that may be taken into account under qualified retirement plans to \$200,000 indexed in \$5,000 increments.
 - A repeal of coordination requirements for 457 plans, so that 457 contributions are not limited by 401(k)/403(b) contributions.
 - After December 31, 2001, permit funds from IRAs, 403(b) and 457 plans to be transferred on a pre-tax basis to purchase permissive service credit, or to repay prior cash outs, in governmental defined benefit plans.

Mr. Finnerty reported that this bill is similar to SB 1095, introduced by Senator Cirillo the previous day, but it contains language in an earlier version of SB 1095 that has since been deleted. Sen. Cirillo's bill also includes a provision that makes permanent the Return to Work option for all retirees.

Mr. Norman Miller directed staff to provide a cost analysis of the bills, as well as a more detailed response as to what the bill really intends to accomplish and any impact it would have. He also expressed concern that because the ASRS has a new actuary, the ASRS may be somewhat slowed in its ability to respond. Mr. Charlie Chittenden, Actuary from Buck Consultants, reported that he is working with the data and computer programming to provide numbers as soon as possible. Mr. Miller reminded staff that the legislature moves quickly and time is not a luxury. Mr. Rottas commented that to help legislators realize the costs and impacts of their proposals, the ASRS needs to provide the numbers as soon as possible.

Mr. Bruner asked if any members of the public wished to speak on these issues.

Mr. Ronald C. Murphy, of Phoenix, expressed concern over HB 2226. He noted that historically the ASRS has had to work hard to keep its various member groups in balance because of inherent differences in the groups, such as different stages in career, etc. This bill may create clashes between the groups and create perceived inequity and unfairness in the system. Mr. Miller encouraged Mr. Murphy to express his views to legislators as well.

Mr. Bob Letson of Tucson commented that the way the tiers are structured in HB 2226 divides even Department of Administration employees. He also said he would like the ASRS to be more explicit in determining the "cost factor" of a bill by explaining the benefits and implications to members, the ASRS, employers, the state, etc.

Mr. Alan Maguire expressed disappointment that the staff has not yet provided cost estimates for the early retirement window, as this had been proposed during the Special Session last fall. He believes the ASRS should be proactive rather than reactive on legislative proposals. He would also like to see the Board members, especially those who have been involved in retirement issues for many years, invited to participate with staff in discussions with key members of the legislature, not only during the legislative session, but throughout the year as well. Mr. Miller concurred that staff should visit with each member of the Board to discuss policy concerns.

6. Director's Report.

There were no comments regarding the director's report.

7. Board Requests for Agenda Items.

Without objection, Mr. Bruner announced that the June Board meeting will rescheduled from June 13 to June 20, 2002, in Flagstaff, to coincide with the Arizona Economic Forum.

Dr. DuVal asked if the arrival of the 13th check created any problems to members in preparing their income tax return. Ms. Prudence Lee, Acting Assistant Director of Member Services, answered that the checks went out in November and the ASRS is not aware of any problems, but she will look into the specifics and provide them to the Board.

8. Call to the Public.

There were no requests to speak from the public.

9. The next ASRS Board meeting is scheduled for Friday, February 15, 2002, at 8:30 a.m. in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85067-3910.

10. Adjournment of the ASRS Board.

Mr. Jim Bruner adjourned the January 18, 2002, meeting of the ASRS Board at 9:10 a.m.

Respectfully submitted,

Maurah Harrison, Secretary Date

LeRoy Gilbertson, Director Date